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SUBJECT: HONDURAS: BANCO FICOHSA: A BANK THAT GETS IT

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**¶1.** (SBU) SUMMARY: While not a world-class bank, Ficohsa is arguably one of the best-placed Honduran banks to survive the continuing market consolidation. Ficohsa is noteworthy for its efforts to explore innovative financial products, adopt new technologies, and craft a market strategy that will allow it to compete, for a while at least, against the new regional banks entering the formerly isolated Honduran market. With its focus on financial and cash management services, trade finance, and remittances, Ficohsa is demonstrating that it sees the coming market shifts and understands it must adapt or face oblivion. End summary.

**¶2.** (SBU) Unlike too many Honduran banks, which seem overly risk-averse and mired in the past, Banco Ficohsa understands that globalization means increased competition, and it is actively seeking new products that push its own performance envelope. On April 8, EconChief sat down with Ficohsa Executive Vice President Javier Atala, International Vice President Abel Garcia, and Corporate Vice President Max Contag to discuss Ficohsa's current posture and its future market strategy.

**¶3.** (SBU) The Ficohsa Financial Group is already a force to be reckoned with in the Honduran market. Founded 15 years ago, Ficohsa is now the fourth largest bank in Honduras in assets and also includes an exchange house, a real estate development arm, and the largest insurance company in Honduras. (The most recent set of full quarterly statistics on Banco Ficohsa can be found at <http://ftp.cnbs.org/boletines/oct-dec2004.exe>.) Ficohsa is also the only Honduran Bank with a presence in the U.S., where it operates nine "Ficohsa Express" wire-transfer offices catering to Hondurans resident in the U.S. who send remittances back to Honduras. Those offices are in Florida (3), Georgia (2), New York (2), North Carolina (1), and Virginia (1). Ficohsa has plans to establish two new offices in 2005, in Houston, Texas and in New Jersey. This presence, combined with a high-visibility branding effort (Ficohsa is one of the official sponsors of the Honduran national soccer team), has paid off handsomely: Atala said that in 2004 Ficohsa received 20 percent of all foreign exchange transfers into Honduras, or approximately USD 50 million per month. Atala told EconChief that this figure has doubled in the first two months of 2005 compared to 2004, reaching USD 100 million per month.

**¶4.** (SBU) Atala estimated that his bank's business is currently 80 percent corporate loans and 20 percent personal loans. He hopes to shift that to a 70/30 allocation in the near future. The personal loans are nearly all for housing mortgages and include loans backed by a USD 2.5 million fund for mid-market mortgages up to USD 75,000 each and a USD 48 million fund (from the Central American Bank for Economic Integration, CABEI) for up-market mortgages up to USD 135,000.

**¶5.** (SBU) Corporate loans -- which Atala admitted are approved based largely on relationships -- tend to fall into a few key sectors, including light industrial (textiles and apparel) and export-oriented agricultural production (such as shrimp, melons, tilapia whitefish, coffee, and citrus). Ficohsa has also been a participant in syndicated loans to major hotel projects, energy generation projects, the national brewery (owned by SAB/Miller), and the InterAirports consortium. As with all Honduran banks, Ficohsa would prefer to lend only to top-tier corporations, but with increasing regional competition from Nicaraguan bank BAC, Salvadoran Cuscatlan, and Panamanian BGA, Ficohsa is being forced to "diversify" into the upper mid-market.

**¶6.** (SBU) To compete with the regional entrants, Ficohsa has actively adopted new technologies. Ficohsa was the first Honduran bank to adopt the SWIFT system for interbank transfers, the first bank to establish a web-page, and the first bank to offer to perform client payroll services

electronically through their network of over 200 ATMs. This final service is of particular importance to their large industrial clients, who resented the logistical and security nightmare caused by weekly payroll disbursements in cash. The ATM-based arrangement, by also creating a reliable mechanism by which Ficohsa could directly debit payments from paychecks, has also allowed the bank to explore offering loans to credit-worthy working-class borrowers -- something all too rare in Honduras.

¶17. (SBU) Ficohsa, Atala said, must also compete with the regional banks by offering improved regional services. Rather than seek to establish a presence in every country in the region, as some banks have done, Ficohsa has instead sought out strategic relationships with strong banks in each country, such as Banco Industrial in Guatemala, Banco Salvadoreno in El Salvador, and BanCentro in Costa Rica. This allows Ficohsa to offer cross-border payroll services, one-stop shopping for accounts in various regional currencies, and, most importantly, in Corporate Vice President Max Contag's view, deeper knowledge of the local markets in each country.

¶18. (SBU) Ficohsa has also expanded into trade finance, providing over USD 200 million in "factoring" (credit issued against accounts receivable). Atala told EconChief that Ficohsa was the first bank in Honduras to offer this type of financing. He described it as an alliance with CIT and Wachovia Bank in the U.S. The group offers financing to Honduran exporters of up to 70 percent of the value of the Purchase Order on 90-day terms. The receivable is endorsed over to Ficohsa, while CIT backs the line of credit in case of bankruptcy of the U.S. buyer. (Comment: Given the long-standing and well known failure of the Honduran court system to guarantee contract enforcement, it is unsurprising that factoring against receivables is rarely, if ever, offered to Honduran firms producing for domestic consumption.

End comment.)

¶19. (SBU) Garcia highlighted another market that Ficohsa is approaching with cautious optimism: families receiving remittances. Under an agreement with the Interamerican Development Bank's Multilateral Investment Fund, Ficohsa would receive USD 5 million in subordinated debt for such loans, if it could secure a senior lender for an additional USD 20 million. Ficohsa is currently in talks with Citigroup and hopes to close such a deal by July 2005. Under the program as envisioned, Hondurans working in the U.S. could use a documented history of remittance payments back to Honduras, backed by an account with a defined minimum balance, to qualify for a three to five year loan to finance such projects as home construction or improvements to the family home in Honduras. This program would not go as far as one recently pioneered in Guatemala, which Contag described as "full blown securitization of remittances," since the bank account would serve as a guarantee for the loan.

¶10. (SBU) Ficohsa's aggressive (by Honduran standards) banking practices have not come at the expense of sound financial practices, according to Atala. Ficohsa is the only domestic Honduran bank to have sought out a rating (rated BBB by Fitch), and it recently successfully issued USD 50 million in bonds to increase its capitalization. That issue was placed entirely within Central America and helped Ficohsa lower its risk weighted average of assets/capital to 14.5 percent.

¶11. (SBU) Comment: Ficohsa is not a world-class bank -- it cherry-picks the market for only top-tier exporters with hard currency earnings, admits that most lending is still relationship-based, and presumably benefits greatly from its close political ties to the current administration (CEO and President Camilo Atala is also the current Minister for Investment Promotion and a close economic advisor of the President). That said, it is refreshing to talk to a bank that sees market opportunities beyond passbook savings deposits and short-term government securities. In a country where inertia and inefficiency allow banks to wallow in double-digit interest rate spreads, where change is feared, and going out into the market to solicit business unheard of, Ficohsa's modest efforts at modernization and innovation are noteworthy. End Comment.

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